Affinity Water

Investor Report

Affinity Water Limited ('Affinity Water')

Twelve Month period ended 31 March 2023

Published 28 July 2023

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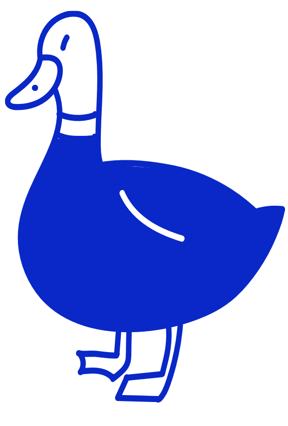

Affinity Water at a glance

We are a 'Water Only' company. That means we supply clean water to our customers, but we do not manage or process wastewater or sewage.

In fact, we are the largest Water Only company. We own and manage the water assets and network in an area of approximately 4,500km2 across three supply regions in the South East of England. We have been supplying water to the local community for more than 170 years

948Ml/d
Daily amount of drinking water supplied
[FY22: 936Ml/d]

3.89m
Customers served
[FY22: 3.86m]

1.49m
Household properties connected
[FY22: 1.48m]

91
Number of water treatment works
[FY22: 91]

16,900km
Length of mains network
[FY22: 16,800km]

1,460
Number of employees (excluding directors)
[FY22: 1,407]

Our Vision

Our vision is to be the UK's leading community-focused water company.

Our Purpose

We supply high quality drinking water and take care of our environment, for our communities now and in the future.

Stewards of the local environment

Our aspiration

- To provide a long-term sustainable supply of water through reducing leakage, reducing demand and bringing online new sources of water
- To take care of the environment through ending unsustainable abstraction from chalk groundwater sources, working with our communities to restore rivers and improve biodiversity in our supply area.
- Achieve Net Zero carbon from operations by 2030

Helping customers use water better

Our aspiration

- We aim to reduce individual daily water use by 12.5% by 2025 through metering and inspiring our customers to use less through our award winning ‘Save Our Streams’ campaign
- We’ll continue to work with government, regulators and across sectors to campaign for the changes we need to make saving water simpler

Giving customers an exceptional experience

Our aspiration

- We’ll continue to produce high-quality affordable water
- We will improve our customer experience through investing in digitisation and customer service
- We’ll continue to drive down disruption for our communities by using the latest methods and technology to keep water flowing
- We’ll support more customers who are struggling to pay, and provide extra support to vulnerable customers through our priority services register

Financial highlights

Revenue (£m)	323.3 Mar 2022: 319.7
Loss for the Period (£m)	(100.9) Mar 2022: (96.9)
Regulatory Capital Value (RCV) (£m)	1,713.7 Mar 2022: 1,478.3
Senior Net Indebtedness (£m)	1,257.6 Mar 2022: 1,079.8
Gearing (%)	73.4% Mar 2022: 73.0%
Conformed Senior Adjusted ICR	1.5x Mar 2022: 1.7x

AffinityWater
Taking care of your water

Our customer outcomes

Our Business Plan for 2020-25 includes a total of 28 stretching performance commitments that will ensure we deliver our four customer outcomes.

Supplying high quality water you can trust

Commitments

- Reduce the number of contacts about appearance, taste and odour to 0.67 per thousand population by 2024/25
- Meet water quality standards on compliance failures by scoring less than two annually in DWI's new water quality measure CRI

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Making sure you have enough water, whilst leaving more water in the environment

Commitments

- 20% leakage reduction on a three-year average from the 2019/20 baseline
- 12.5% reduction in PCC on a three-year average from the 2019/20 baseline
- Complete river restoration and habitat enhancement projects under the Water Framework Directive
- Reduce water abstraction by 27.3 Ml/d by 2024/25
- Complete eight environmental pilot projects working in partnership with our local communities
- Delivery of schemes within the WINEP programme
- Reduce abstraction from environmentally sensitive sites to nil when flows or levels are low

Providing a great service that you value

Commitments

- Improve the overall customer experience provided to our household customers
- Improve the overall experience provided to developer services customers including property developers, self-lay providers and New Appointments and Variations (NAVs)
- Proactively assist more of our customers in vulnerable circumstances by understanding and prioritising their needs
- 90% of customers in vulnerable circumstances receiving help are satisfied with the service from us
- Achieve a score of at least 7.8 out of 10 for customer satisfaction in a value for money survey
- Proactively reducing the number of household properties falsely classed as empty on our billing system to 2.10% in 2024/25

Minimising disruption to you and your community

Commitments

- Reduce supply interruptions to customers to five minutes in 2024/25
- No more than 320 properties affected by a supply interruption per year of more than 12 hours duration
- Improve IT resilience by a 29% reduction in the impact of disruption to customers and employees by 2024/25
- Reduce the properties at risk of receiving low pressure to 1.118 per thousand properties by 2024/25
- Reduce the average time each property experiences low water pressure to less than 8 hours 42 minutes in 2024/25
- To have no customers at risk of experiencing severe restrictions in a 1-in-200 drought on average over 25 years
- Reduce the number of mains repairs to 142.3 per thousand kilometres of network

Operational performance

We have aligned our operational KPIs to our key performance commitments in response to customer expectations. We want customers and stakeholders to be able to measure our success and hold us to account.

The first three years of the 2020–2025 period have now been completed. We are required to report our performance against targets as set by Ofwat in our final determination 2019. These targets include the performance commitments made in our Business Plan 2020–2025. Our performance in relation to these targets for 2022/23 is analysed in the tables below.

Water Quality

Compliance Risk Index (CRI)

Actual: 1.092
Target: 2.000

The Compliance Risk Index ('CRI') is a measure to inform the risk arising from treated water compliance failures.
Our CRI score, the measure used by the Drinking Water Inspectorate ('DWI') to assess a water company's performance with regards to water quality, was 1.092 for 2022.

This was well within the 'deadband' of 2 for our performance commitment and was one of the leading scores across the industry in 2022.

PCC

Average water use (litres/person/day)

Actual: 4.3% increase (160.6 l/p/d)
Target: 7.3% reduction

PCC is reported as a three-year average against a baseline level of 2017-20 average water use.
PCC is a measure of water usage in the home.
During 2022/23, we recorded PCC of 160.6 l/p/d which is an increase from 159.2 l/p/d recorded in 2021/22 (based on three-year average).
We did not achieve the targeted reduction of 7.3% in the three-year average from the 2019/20 baseline.
Water demand has not returned to pre-pandemic levels, but we remain committed to reducing PCC by the end of AMP.
We have continued our water saving initiatives such as our flagship SOS 'Save Our Streams' campaign, home water efficiency checks.

D-Mex

Score

Actual: 10th
Target: Mid table

D-MeX is the measure of levels of service in the developer services area of activity. The index score is made up of both a qualitative and a quantitative element.
At the halfway mark for D-MeX, we are currently 10th in the industry league table.
For the first nine months of this year, we have achieved 100% compliance against the quantitative element of our D-MeX score.
Development Experience have completed a restructure to ensure we are set up to provide our customers with fantastic customer service, as well as working within agreed timescales. We are anticipating seeing the benefits of our restructure in quarter 3 qualitative survey results.

Leakage

Average Annual water leakage (Ml/d)

Actual: 15.8% reduction
Target 14%

This measure is reported as a percentage reduction in a three-year average of leakage against a baseline level of 2019/20.
We reduced leakage by 15.8% in 2022/23, surpassing our 14% target.

C-Mex

Score

Actual: 14th
Target: Mid table

Customer Measure of Experience (C-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.
C-MeX is based on a league table comparison of performance by the other 17 water companies in England and Wales.

Mains Repairs

Number per 1000km mains

Actual: 169.6
Target: 146.5

Performance in the year was 169.6 repairs per 1,000km of mains on a target of no more than 146.5 in the year (2021/22: 100.2).
Weather is a strong contributing factor in the number of mains repairs needed in a year. We experienced an exceptionally hot summer in 2022 with a significant freeze/ thaw event in winter.
Figures cannot be compared directly to the previous year's without taking this into account.

Water supply interruptions

>3 hours

Average minutes per property, water supply interruption

Actual: 00:12:53
Target: 00:05:45

Interruptions are reported as the average number of minutes properties are without water (for interruptions lasting 3 hours or more).
Our overall performance across the year was very strong.
We outperformed our monthly target ten out of 12 months. Unfortunately, due to the significant weather events we experienced in the year (Jul-23 hot weather and Dec-23 freeze/thaw), we have failed our performance commitment. We added over ten minutes to the register for these two events (2mins in Jul-23 and 8min in Dec-23).
Underlying performance was very strong for the other ten months.

Properties at risk of low pressure

Per 10,000 properties

Actual: 150.93
Target: 1.381

The low-pressure KPI definition is properties at risk of receiving low pressure, per 10,000 properties, for which we receive a financial penalty if we fail to achieve the regulatory target.

Our performance against the target for year 3 is 150.93 against the target of 1.381. We also have a second performance commitment for low pressure which reflects the average time that a property in our supply area receives pressure or flow below the reference level.

Our annual performance against this target is 2.33 hours against a target of 10 hours.

Unplanned interruptions to supply over 12 hours

Number of properties

Actual: 6,070
Target: 320 or less

Our overall performance across the year was very strong. We outperformed our monthly target ten out of 12 months. Unfortunately, due to the significant weather events we experienced in the year (Jul-23 hot weather and Dec-23 freeze/thaw), we have failed our performance commitment. We added over 6,000 properties to the register for these two events.
Underlying performance was very strong for the other ten months.

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Financial performance

Financial results for the year ended 31 March 2023

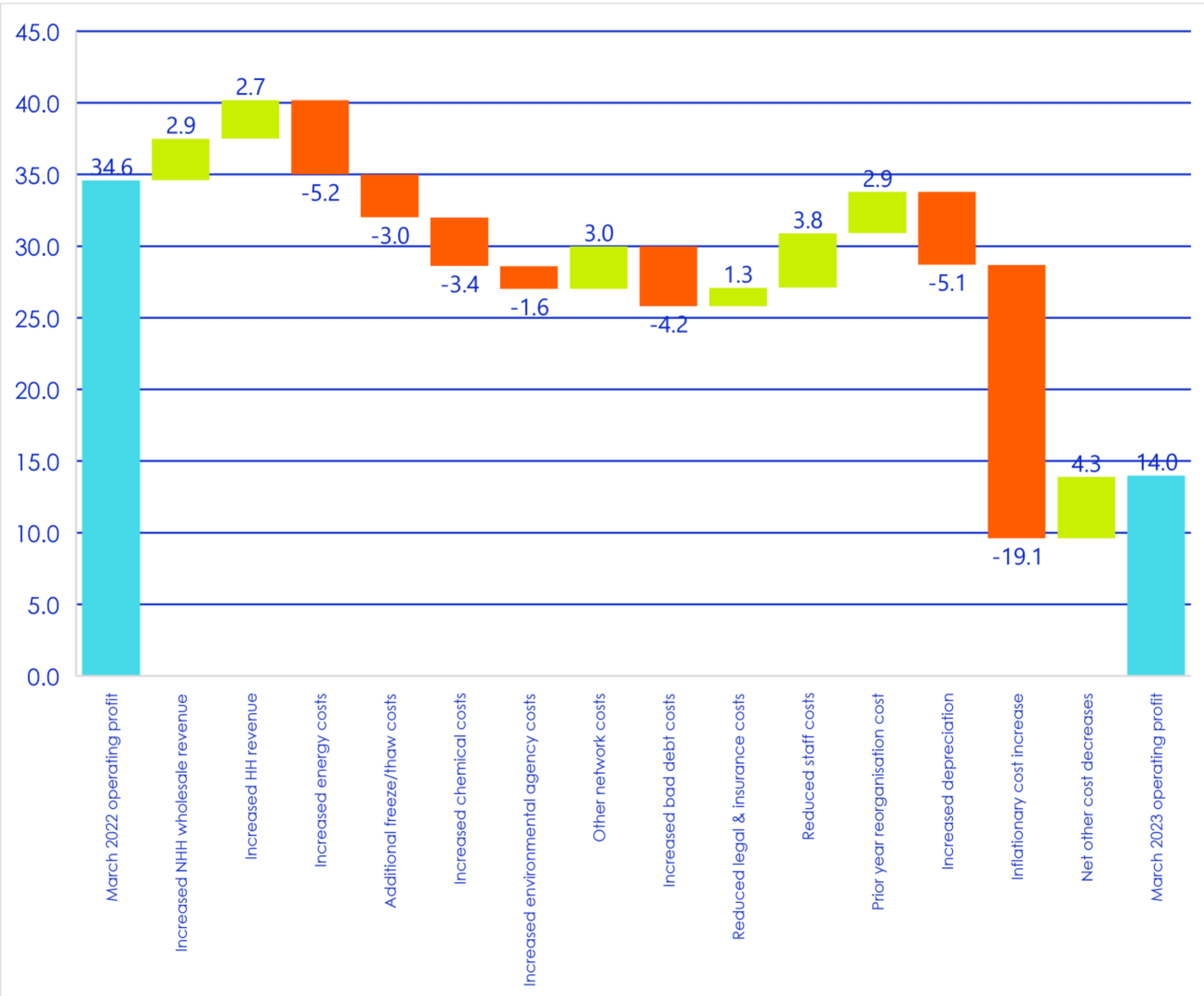
	2023	2022
	£000	£000
Revenue	**323,343**	319,747
Cost of sales	**(282,452)**	(258,553)
Gross profit	**40,891**	61,194
Administrative expenses	**(37,650)**	(38,159)
Impairment losses on financial and contract assets	**(11,199)**	(7,444)
Other operating income	**21,929**	18,972
Operating profit	**13,971**	34,563
Finance income	**19,529**	16,043
Finance costs	**(169,693)**	(102,873)
Fair value loss on inflation swaps	**50,122**	(31,295)
Net finance costs	**(100,042)**	(118,125)
Fair value gain on energy swaps	**(26,638)**	27,988
Profit/ (Loss) before tax	**(112,709)**	(55,574)
Income tax credit/(expense)	**11,764**	(41,331)
Profit/(Loss) for the year	**(100,945)**	(96,905)

Revenue

Revenue for 2022/23 was £323.3 million, being a £3.6 million (1.1%) increase on the prior year (2022: £319.7 million). The increase is primarily due to higher nonhousehold ('NHH') wholesale revenue as final settlement runs continue to be higher than expected, as well as an increase in household ('HH') tariffs due to billing of empty properties, additional transfers from unmeasured tariffs and the hot summer weather driving additional consumption. Additionally, developer experience activity increased during the year, resulting in additional contributions towards new connections in the current year. Other income increased by £2.9 million (15%) to £21.9 million (2022: £19.0 million) as a result of sundry income related to contaminated land.

Operating expenditure

Operating costs (Cost of sales, Administrative expenses and Impairment losses on financial and contract assets) for the year increased by £27.2 million (8.9%) to £331.3 million (2022: £304.1 million) with year-on-year inflation being higher and higher wholesale energy prices. Energy costs would have been considerably higher had the company not hedged its usage. Additional expenditure was also incurred as a result of the freeze/thaw event in December 2022 resulting in a large number or bursts, additional imports required and many repair jobs. Network costs increased as a result of a global increase in chemicals costs. Bad debt costs also increased during the year as a result of a decline in our cash collection rates. The depreciation charge was also higher than the prior year due to ongoing investment in our network. Staff costs reduced in the year due to the mix of capex and opex works completed in addition to prior year reorganisation costs incurred. Operating profit decreased by £20.6 million (59.5%) to £14.0 million (2022: £34.6 million) as shown in the graph below:

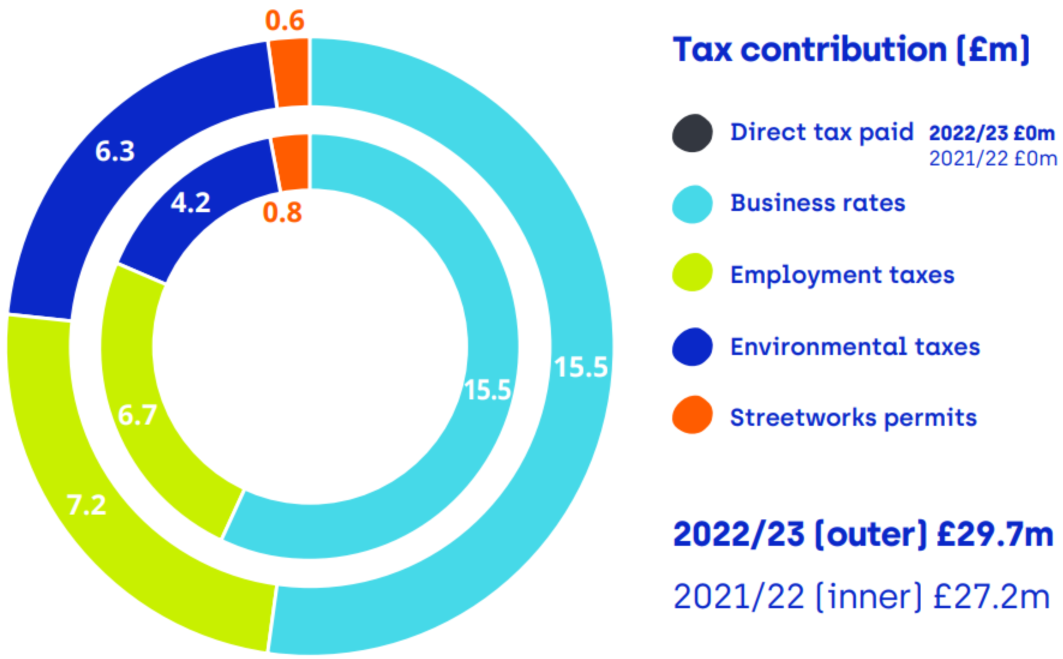


Interest and Fair Value Movements

The net finance expense of £100.0 million was £18.1 million (15.3%) lower than last year (2022: £118.1 million), primarily due to a fair value gain on inflation swaps. There was a fair value loss of £26.6 million on energy swaps due to a fall in the market forward price compared to last year.

Taxation

The income tax credit for 2022/23 was £11.8 million (2022: £41.3 million charge) as a result of a tax credit on losses made in the year. In the prior year, a tax charge was incurred due to the tax rate increase from 19% to 25% announced in the prior year, partially offset by a tax credit on losses recognised in the prior year. The effective current tax rate (11%; 2022: 74%) was lower than (2022: higher than) the UK corporation tax rate of 19% (2022: 19%). Further information and a full reconciliation of the current tax charge are set out in note 5.4 of our statutory financial statements. All our profits are taxed in the UK, and we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities.



Dividends

No equity dividends were paid during the year (2022: £nil), reflecting the shareholders' commitment to reinvest all planned returns from the company's appointed business for the benefit of our customers during AMP7.

Capital expenditure

Capital expenditure in the year was £127.7 million (2022: £139.9 million), and was incurred principally in our leakage, mains renewals, trunk main replacement, water treatment and integrated water savings programmes. This excluded £21.1 million (2022: £22.2 million) of infrastructure renewal expenditure, which is treated as an operating cost under FRS 101. Our total capital expenditure for 2022/23 includes an element of spend that had been scheduled for earlier years in AMP7 but was delayed due to Covid-19 restrictions in place at the time. The total capital expenditure also includes spend on HS2 schemes that have been fully compensated for.

Net debt and gearing

As we are a business with a long-term outlook and expenditure commitments, we need to match this with long-term sources of debt finance. We consider the most cost-effective way to raise long-term debt to be through the debt capital markets. Our financing subsidiaries have outstanding external bonds totalling £1,130.0 million, raised in the debt capital markets and on-lent to the company on the same terms. Our net debt as at 31 March 2023 was £1,257.7 million, an increase of £177.9 million since last year (2022: £1,079.8 million). This increase reflects a net cash outflow of £56.8 million, primarily driven by capital expenditure on our network. In addition, our index linked bonds increase by prevailing RPI and CPI. This non-cash accretion is designed to match growth in nominal RCV and is included within net debt.

Our gearing as measured by net debt to RCV at 31 March 2023 was 73.4% (2022: 73.0%), so remains below our internal maximum gearing level of 80.0% of RCV.

Cash flow

Net cash flow before tax and financing for the year was £22.9 million outflow, being a £6.8 million increase on last year (2022: £16.1 million outflow). The increase in the outflow is primarily due to higher net investment in fixed assets in the current period in line with our 2020–2025 plan. Cash generated from operations was also lower than in the prior year, with lower operating profits being partially offset by favourable movements in working capital.

Financing Update

Structure

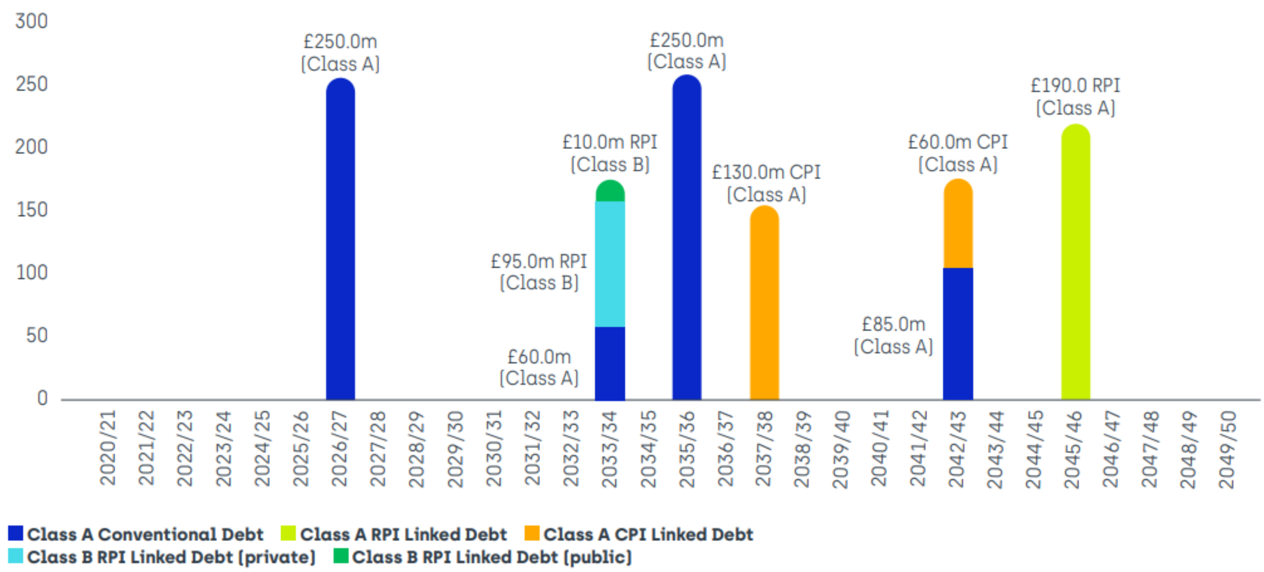
Affinity Water Limited is financially and operationally 'ring-fenced' from the rest of the Affinity Water Group by way of a Whole Business Securitisation ('WBS'). The securitisation further enhances the ring-fencing provisions already in our licence.

We believe that the ring-fencing structure provides significant corporate benefits, providing better access to long-term debt markets and an opportunity to reduce the cost of capital employed in the regulated business for the benefit of customers.

Debt portfolio

As we are a business with a long-term outlook and expenditure commitments, we need to match this with long-term sources of debt finance. We consider the most cost-effective way to raise long-term debt to be through the debt capital markets. Our financing subsidiaries have outstanding external bonds totalling £1,130.0m, raised in the debt capital markets and on-lent to the company on the same terms. £14.2m of debt matured on 30 September 2022 and was repaid in cash on this date. Our next significant debt maturity is in July 2026 when a £250.0m fixed rate bond matures.

The following chart shows the maturity profile of the bonds issued by the company's subsidiaries as at 31 March 2023:



Credit ratings

Moody's, Fitch and Standard and Poor's all affirmed our credit rating this year. The table below shows the current credit rating held with each agency. The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch, have not changed since March 2022. However, Standard & Poor's placed our outlook on negative in October 2022.

Bonds	Moody's	Standard & Poor's	Fitch
Class A	A3	BBB+	BBB+
Class B	Baa3	BBB-	BBB-
Corporate family rating	Baa1	Not applicable	Not applicable

Liquidity

Our liquidity is managed through banking arrangements and adequate (though not excessive) cash resources, borrowing arrangements and standby facilities. This enables us, at all times, to have the level of funds available that are necessary for the achievement of our business and service objectives. At 31 March 2023, we had cash balances of £78.8 million (2022: £135.6 million) and short-term deposits held as investments of £66.7 million (2022: £70.2 million). The decrease in cash from the prior year is due to continued investment in our network in the year to 31 March 2023 and repayment of the £14.2m bond in September 2022.

To the extent that additional funding is required, as well as our cash balances, we have access to two revolving credit facilities totalling £100.0 million (2022: £100.0 million), which were undrawn at 31 March 2023 (2022: undrawn), to finance capital expenditure and working capital requirements. In addition, we have access to a further £52.0 million of liquidity facilities (2022: £55.0 million), consisting of a 364-day revolving £27.0 million facility to fund any debt service payments in the event of a liquidity shortfall, which would, otherwise, prevent such payments being made and a 364-day revolving facility of £25.0 million to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.

Regulatory update

Our business is a regional monopoly and is subject to incentive-based economic regulation by Ofwat. We are subject to a strict revenue control regime designed to incentivise efficiency in operations and investment decisions.

AMP7

Our AMP7 price controls were published in December 2019 and we accepted them in February 2020. We have now completed three years of AMP7. Our current performance is hugely important because, if we're achieving in our core business, we have the legitimacy to take the things we're doing, and want to do, into our next price-control submission and into our longer-term strategic direction statements.

PR24

PR24 is the process by which Ofwat will determine the revenues we need and outcomes we need to deliver in AMP8. We made an early start to this process and fully mobilised our PR24 team, involving people from across the business to develop a high quality and deliverable Business Plan.

We are carrying out our PR24 work according to a project plan, overseen by a dedicated Project Board, with regular Board engagement and oversight. We set out the long-term vision in our November 2021 Strategic Direction Statement. This detailed what we intend to deliver and the strategic choices we will need to make. We are now working on developing the evidence for our plan, principally around costs, service and performance, for final submission in October 2023.

Our draft water resources management plan, published in November 2022, sets out our approach to keeping water supply and demand in balance. We are continuing our customer research work to establish our customers' priorities, alongside stakeholder engagement, and to make sure these are well reflected in our Business Plan. In parallel, over the last year we have contributed to numerous consultation documents and participated in working groups and discussions to inform, influence and shape Ofwat's methodological framework.

Governance update

The company is committed to high standards of corporate governance and transparency, believing these to be essential in delivering the long-term success of our business. The Board governs the company in accordance with the Affinity Water Corporate Governance Code. This incorporates the Ofwat Board Leadership, Transparency and Governance Principles 2019 in their entirety, and those parts of the UK Corporate Governance Code 2018 that are deemed relevant to our business.

Our shareholders have an important role to play and a direct interest in the strong and effective governance and stewardship of our business. We explain how we engage with our shareholders and involve them in decision making in our publication: Consulting with our Shareholders.

Board appointments

Keith Haslett has been appointed the new permanent CEO of the company. Keith joined on 1 January 2023 and was previously Water Director at Northumbrian Water. Keith brings with him extensive experience of the industry having previously worked for both Northern Ireland Water and United Utilities.

Martin Roughead has been appointed Chief Financial Officer, joining the business on 17 April 2023. Martin was previously the Director of Strategy and Regulation at Southern Water, and prior to that was Head of Corporate Finance. Martin has extensive experience in the regulated utility and infrastructure industry.

Adam Waddington has been appointed to the board effective 12 May 2023 as the DIF Infrastructure shareholder representative. Adam is replacing Marissa Dardi who was appointed on 15 February 2023 having taken on the position from Angela Roshier.

Stuart Ledger left the company in December 2022 after 4 years as CFO and 1 year as Interim CEO.

Patrick Makoni has been appointed Company Secretary effective 3 April 2023.

Executive appointments

Paddy Murray has joined the company as Interim People and Culture Director from 27 February. Paddy is an experienced HR and Organisational Development professional with over 25 years' senior HR experience in complex, challenging organisations across all industries and sectors including notably as HR Director at Northern Ireland Water.

Rebecca Froud has been appointed permanent Director of Customer Experience with effect from 1 April 2023. Rebecca initially took the role on an interim basis. Rebecca has over 20 years' experience in leading and transforming teams to deliver excellent customer service and supporting the delivery of improved experiences for customers.

Common Terms Agreement Compliance

Calculation of financial ratios[1]

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow divided by	£m	109.1	110.9	113.1
Class A Debt Interest	£m	18.6	19.6	22.6
Class A ICR	**Ratio**	**5.9**	**5.7**	**5.0**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	109.1	110.9	113.1
CCD and IRC	£m	0	0	0
Adjusted Net Cash Flow divided by	£m	109.1	110.9	113.1
Class A Debt Interest	£m	18.6	19.6	22.6
Class A Adjusted ICR	**Ratio**	**5.9**	**5.7**	**5.0**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	109.1	110.9	113.1
CCD and IRC	£m	0	0	0
Adjusted Net Cash Flow divided by	£m	109.1	110.9	113.1
Senior Debt Interest	£m	23.1	24.4	27.5
Senior Adjusted ICR	**Ratio**	**4.7**	**4.5**	**4.1**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Year 1	Ratio	5.9	5.9	5.9
Year 2	Ratio	5.7	5.7	5.7
Year 3	Ratio	5.0	5.0	5.0
Class A Average Adjusted ICR	**Average**	**5.5**	**5.5**	**5.5**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Year 1	Ratio	4.7	4.7	4.7
Year 2	Ratio	4.5	4.5	4.5
Year 3	Ratio	4.1	4.1	4.1
Senior Average Adjusted ICR	**Average**	**4.5**	**4.5**	**4.5**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	115.3	119.5	121.6
RCV Depreciation and Capitalised IRE	£m	(81.6)	(83.9)	(90.2)
Conformed Adjusted Net Cash Flow divided by	£m	33.7	35.6	31.4
Class A Debt Interest	£m	18.6	19.6	22.6
Conformed Class A Adjusted ICR	**Ratio**	**1.8**	**1.8**	**1.4**

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Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	115.3	119.5	121.6
RCV Depreciation & Capitalised IRE	£m	(81.6)	(83.9)	(90.2)
Conformed Adjusted Net Cash Flow divided by	£m	33.7	35.6	31.4
Senior Debt Interest	£m	23.1	24.4	27.5
Conformed Senior Adjusted ICR	**Ratio**	**1.5**	**1.5**	**1.1**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Year 1	Ratio	1.8	1.8	1.8
Year 2	Ratio	1.8	1.8	1.8
Year 3	Ratio	1.4	1.4	1.4
Conformed Class A Average Adjusted ICR	**Average**	**1.7**	**1.7**	**1.7**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Year 1	Ratio	1.5	1.5	1.5
Year 2	Ratio	1.5	1.5	1.5
Year 3	Ratio	1.1	1.1	1.1
Conformed Senior Average Adjusted ICR	**Average**	**1.4**	**1.4**	**1.4**

Date		Calculation Date	31 March 2024	31 March 2025
Class A Net Indebtedness divided by	£m	1,102.9	1,213.5	1231.0
RCV	£m	1,713.7	1,821.6	1,830.6
Class A RAR	**Ratio**	**0.644**	**0.666**	**0.672**

Test period		Calculation Date	31 March 2024	31 March 2025
Senior Net Indebtedness divided by	£m	1,257.6	1,373.8	1,391.6
RCV	£m	1,713.7	1,821.6	1,830.6
Senior RAR	**Ratio**	**0.734**	**0.754**	**0.760**

1 – This Investor Report contains a high-level summary of covenant calculations. The detailed calculations were provided to the Trustee and other relevant parties on 14th July 2023 along with the Compliance Certificate.

The following table reconciles the Class A Net Indebtedness and Senior Net Indebtedness to the amounts reported in the financial statements.

Date	**31 March 2023 £m**
Borrowings	1,331.7
Less Permitted Legacy Loan	(3.6)
Add Unamortised Debt Issue Costs and Bond Premium	(29.8)
Add Accrued Interest	6.8
Add Swap Accretion	98.0
Less Cash and cash equivalents	(145.5)
Senior Net Indebtedness	**1,257.6**
Less Class B Indebtedness	(154.7)
Class A Net Indebtedness	**1,102.9**

AWL has adopted IFRS 16: 'Leases' ('IFRS 16') from 1 April 2019 but has not restated comparatives for the prior reporting period, as permitted under the specific transitional provisions in the standard. Reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019. The key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees, thereby impacting the Income Statement and Statement of Financial Position from the adoption date. In particular IFRS 16 would result in the removal of operating lease costs from Operating Expenditure, being replaced with additional depreciation and interest charges. This accounting treatment has been excluded for the purposes of calculating the ratios.

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Further certifications

Surplus

Our Board has approved dividend and executive remuneration policies that provide for dividends and executive remuneration proportionate with long-term returns and performance of the company, whilst not impairing its longer term financeability. The performance of the company comprises our financial performance as well as an assessment of performance in the following areas: customer service, operational commitments, community commitments and people.

Authorised Investments

Terms	Bank Deposits (£m)	Liquidity Funds (£m)	Total (£m)
Overnight	10.3	61.7	72.0
3 Months	15.5	-	15.5
6 Months	46.0	-	46.0
9 Months	5.2	-	5.2
1 Year	0.0	-	0.0
Total	77.0	61.7	138.7

Debt Service Reserve Accounts

There is no balance in each of the Debt Service Reserve Accounts as at 31 March 2023. The required debt service reserve is provided by a liquidity facility from National Australia Bank PLC totalling £27.0m.

Permitted Subsidiaries acquired

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition in the period to 31 March 2023.

Annual Finance Charge

Affinity Water Limited has calculated the Annual Finance Charge for the period from 1 April 2023 to 31 March 2024 as £24.4m.

	1 April 2023 to 31 March 2024 (£m)
Forecast interest paid on bonds and swap	23.5
Forecast interest paid on loans	0.0
Other recurring finance fees paid	0.9
Total	**24.4**

Additional confirmations

Affinity Water Limited also confirms that:

(a) no Default or Potential Trigger Event is outstanding; and

(b) that Affinity Water Limited's insurances are being maintained in accordance with the Common Terms Agreement.

Yours faithfully,

Martin Roughead

Chief Financial Officer

Affinity Water Limited

(in its capacity as Transaction Agent)